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SUBJECT: COCA-COLA PEACEFULLY RESOLVES LABOR DISPUTE WITH GVN
ASSISTANCE

Summary

1. A recent labor dispute over the termination of Coca-Cola's direct-hire guardforce deteriorated into a two-day stand-off when more than half of the guards refused to relinquish their posts. Coca-Cola, which had previously cleared the terms of the lay-off and related severance package with the local government, called upon city officials for assistance. The officials visited the guards and urged them to accept the original offer, and the guards eventually left. The event generated significant local press coverage. Local authorities provided public support to an American firm that followed the Vietnamese labor law.

Guard Force on Guard

2. On February 8, security guards at the Coca-Cola Company bottling plant in Ho Chi Minh City's Thu Duc District began a labor action that was something of a cross between a sit-in and a lock-out. Coca-Cola had recently decided to outsource the security function at the plant by hiring a private security company to replace the plant's 24 direct-hire security guards. When new guards from the Tri Dung Security Company arrived to take up their posts, 15 old guards, all direct-hire Coca-Cola employees, refused to relinquish their jobs. The laid-off guards did not use violence or interfere with the plant's operations; they simply refused to leave.

3. Publicly, the laid-off guards claimed that the signature of Coca-Cola Vietnam's General Director had been forged on the paperwork executing the personnel change. They also described the procedures for terminating their employment as unsatisfactory and said they did not want to be blamed for any losses or problems that might arise during the transition from direct-hire guards to the private security company. Their real demands, however, codified into a demand for larger severance packages. Coca-Cola offered each guard the legally-mandated one month of severance pay per year of service, plus two months pay to cover time spent searching and training for a new job. On top of the legally mandated payments, Coca-Cola sweetened the package with a bonus averaging 9 months' salary. The laid-off guards countered with a request for 36 months' salary.

4. Coca-Cola was unwilling to change their offer and called upon local authorities to assist. Ho Chi Minh City Department of Labor, Invalids, and Social Affairs (DOLISA) officials and representatives from the Labor Confederation visited the bottling plant. Prior to terminating the guards' employment, Coca-Cola submitted its proposed severance plan to DOLISA and the Labor Confederation for approval and both approved of the terms. Having signed off already, local officials urged the guards to accept the original terms. According to a Coca-Cola representative, officials told the guards that this was a generous offer that went far beyond the legal requirement and one they should accept. Local police were also notified of the situation but did not use force to end the standoff.

Changing of the Guard

5. It took some time, but the measured reaction by Coca-Cola and local authorities paid off late in the evening on February 10, when the recalcitrant guards left their posts and allowed their replacements to take over after a delegation of DOLISA, Labor Confederation, and People's Committee officials visited the factory and called for the guards to leave. The standoff lasted more than two days but effected no change in the original terms. Coca-Cola set a one-week window (February 13-20) for the guards to come pick up their severance packages at the factory. At present, 10 of the 24 guards have arrived to claim their payments. Coca-Cola has requested that the People's Committee appoint some government body to accept the money from Coca-Cola and disburse payment for claims made after February 20.

Coca-Cola's Guarded Reaction

6. A Coca-Cola rep told Econoff that the decision to terminate the guards and hire a private security firm was simply a move to outsource a function that could be done more cheaply and effectively by an independent specialist. It also helps limit Coca-Cola's liability for any guard-related incidents. He also mentioned that the guards employed by Coca-Cola were offered the

opportunity to work for Tri Dung Security Company, albeit at lower salaries.

17. Coca-Cola praised the local authorities for helping solve the problem peacefully. The Coke rep said the lesson he was taking away from the incident was, "Let the government do what it is there for, to handle problems like these. When there is a problem, we should step back and call in the government." A vice president of the HCMC Labor Confederation echoed Coca-Cola in laying blame for the conflict on the guards. He told Econ FSN assistant that the company had more than fulfilled its responsibilities and he had absolutely no complaints about the way Coca-Cola handled the lay-off.

18. When asked why the police did not just go in at the start and remove the guards, the Coca-Cola rep said that was not something his company wanted as it carried the potential for bad publicity, especially if someone were injured. The termination did generate a fair amount of press attention.

19. Coca-Cola's operations in Vietnam, begun shortly after the end of the U.S. embargo, include three bottling plants (Hanoi, Danang, HCMC) and employ more than 2000 employees. According to company estimates, they have captured 65 percent of the market share after an investment in excess of USD150 million. Coca-Cola believes its success is due to consumer sentiment and loyalty, and would therefore try to avoid anything that might upset consumers.

Labor Actions Are Commonplace

10. Labor actions are commonplace in HCMC. Newspapers carry fairly regular accounts of walk-outs and short-term strikes in local factories. ConGen contacts in the Labor Federation were reluctant to give statistics without approval from higher-ups, but a local newspaper reporter working the labor beat said there were 60 full-blown strikes in HCMC during 2003, an increase of approximately 10 percent over 2002. Most incidents, which might only last for a day or so, do not make it into the statistics. Labor disputes are mostly sparked by wages (overtime), benefits, or work conditions complaints. According to a local labor NGO contact, some sort of dialogue followed by minor concessions on either side almost always solves these conflicts. In his experience, however, no one has ever demanded 36 months' severance pay.

Comment

11. This is a good news story for the American business community here. When this high-profile U.S. firm played by the rules and offered a severance package well in excess of the legal requirements, local authorities played a helpful role, diffusing the situation and essentially backing the company. At the same time, the effort to reach agreement rather than use force reflects the preferred method for dealing with the majority of labor disputes.
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